

EIGHTH
ANNUAL REPORT

AR11

RICHWELL

PETROLEUMS LIMITED

MAY 6 1958



Midway Terminal Limited saw mill plant at Head-of-the-Lakes, Fort William, Ontario. Showing company dock facilities now ready for ocean going freighters using the St. Lawrence Seaway.

1204 MONTREAL TRUST BLDG.
67 YONGE STREET
TORONTO

10584 - 107TH. STREET
EDMONTON, ALBERTA

FORT WILLIAM

THE CENTRE OF A CONTINENT

GRIZZLY VALLEY
MONKMAN PASS

SINCLAIR MILLS

HAZELMERE
VALLEY

KEREMEOS

EXCELSIOR REFINERY
AT LLOYDMINSTER

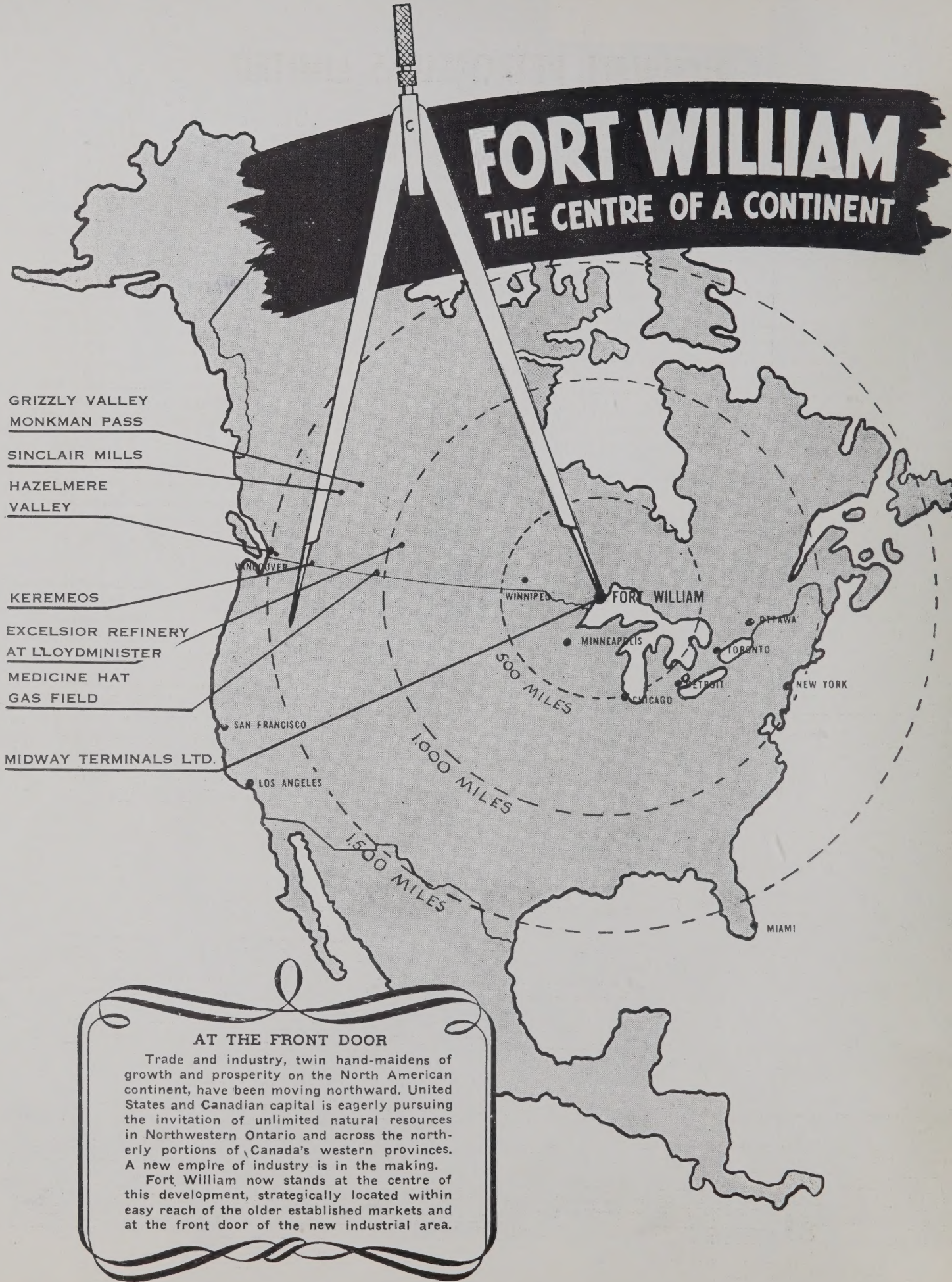
MEDICINE HAT
GAS FIELD

MIDWAY TERMINALS LTD.

AT THE FRONT DOOR

Trade and industry, twin hand-maidens of growth and prosperity on the North American continent, have been moving northward. United States and Canadian capital is eagerly pursuing the invitation of unlimited natural resources in Northwestern Ontario and across the northerly portions of Canada's western provinces. A new empire of industry is in the making.

Fort William now stands at the centre of this development, strategically located within easy reach of the older established markets and at the front door of the new industrial area.



RICHWELL PETROLEUMS LIMITED

A PERSONAL MESSAGE TO YOU FROM:

GEORGE A. RICHARDSON, PRESIDENT OF RICHWELL PETROLEUMS LIMITED

While the accompanying annual report contains a fairly comprehensive review of your company's affairs, I wish to take this opportunity to present a few personal observations and to discuss the reasons for the delay which occurred in the filing of our 8th Annual Report with the Toronto Stock Exchange which brought the interruption of trading in the company's shares on said exchange and also on the American Stock Exchange.

With the advent of the Trans Canada Gas Line, the exploration for and development of natural gas has become one of Canada's leading natural resource industries. Your management has directed its attention to this field and has met with recent success in participation with others in drilling in the Medicine Hat area as described in the report. Because there is a market for the natural gas close at hand, the development of this field should be a source of early revenue for our company. As stated in the report, a second well is already drilling. The program of exploration and development calls for at least 10 wells. The natural gas reserves for the 16,000 acre block as estimated by Mr. Mackenzie, are impressive. There are two other reservations covering more than 75,000 acres which will be tested. If comparable results are obtained, the value behind our company's shares will be enhanced many fold.

Your management considers the investment in Sinclair Spruce Lumber Co. Ltd., of major importance. Notwithstanding general adverse business conditions affecting the lumbering industry in the years 1957 and 1958, Sinclair nevertheless was able to show a net profit in each year. In the preceding 10 years, the annual profit before depreciation and taxes averaged about \$250,000.00 and Corporate Income Taxes averaged about \$100,000.00. A marked improvement for 1959 is already indicated. The average price received for lumber in 1958 was \$64.83 per MBF at the mill, whereas in January of this year the price was \$73.36. The operating profit in January exceeded \$25,000.00.

However, the prospects for earnings are multiplied several times with the enlarged operations contemplated by the merger of Sinclair with Midway Terminals Ltd., as outlined in the accompanying report. If shareholders accept the recommendations of management, our company will acquire 50% of the shares of Midway to be issued and outstanding after the sale of Midway of our 100% interest in Sinclair and in addition, we will own \$650,000.00 of Sinclair's 6% bonds and \$500,000.00 of Midways 7% debentures. We will also receive the benefit of \$200,000.00 cash to be paid.

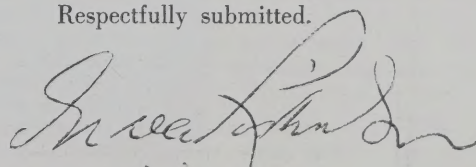
Your management has made a comprehensive study of Midway's plans and prospects. The combined capacity of the three plants that Midway will own on the completion of the merger will be about 10 times that of the Sinclair plant. A capacity for earning 10 times what Sinclair has earned in its operations over the past years. So that shareholders of Richwell may benefit from direct participation in the profits of Midway, if the sale is approved, I will recommend to the new Board of Directors that a distribution of some of the Midway Terminal shares be made to our shareholders, probably on a basis of one Midway share in respect of every four issued shares of Richwell.

Early in November, when the Company anticipated calling the annual meeting, Excelsior Oil's financial difficulties outlined in the accompanying material, arose. It was then almost impossible to report to shareholders on this affair until we knew what course of action would be taken by the Company. It was not until February 27, 1959, that our position in this affair was resolved as set out in the accompanying agreement with Chieftain.

In the foregoing circumstances, your officers and directors were faced with the dilemma of either submitting an incomplete report which would have been confusing, or delaying the submission thereof until all facts which shareholders should know were clarified. The latter course was chosen, but in so doing, a regulation of the Toronto Stock Exchange was contravened and Richwell shares were suspended from trading on said exchange. The American Stock Exchange took similar action in this matter. We have been working assiduously to assemble and file with the exchanges all financial statements, reports and other information requested. Filing of the accompanying annual report was one of the requirements. We are hopeful that we can satisfy the exchanges in all particulars and that trading in our shares on the exchanges will be resumed.

In closing I wish to express my appreciation and that of my fellow officers and directors for the indulgence of all shareholders and to assure you that I will continue to serve you to the best of my ability.

Respectfully submitted.



George A. Richardson,
President.

March 12, 1959.

RICHWELL PETROLEUMS LIMITED

EIGHTH ANNUAL REPORT

Your directors present herewith the Eighth Annual Report of Richwell Petroleum Limited together with copy of Consolidated Financial Statements of Richwell Petroleum Limited and its wholly-owned subsidiary, Wilrich Drilling Limited, for the year ended May 31, 1958, including Consolidated Balance Sheet, Consolidated Statement of Profit and Loss. Notes to Consolidated Financial Statements and Auditors' Report dated February 11, 1959. During the fiscal year covered by the said Statements, Sinclair Spruce Lumber Co. Ltd. and Excelsior Oil Refineries Limited became wholly-owned subsidiaries. However, since the fiscal year end of these companies is December 31st, it was not practical to consolidate also the statements of said Companies for the five-month period from December 31, 1957 to May 31, 1958. Reference to the operations of and transactions concerning said wholly-owned subsidiaries are made in the Notes to Consolidated Financial Statements, particularly Notes 2, 5, 6, 9, 10 and 11.

To present a more conservative picture of our assets, your Directors have this year for statement purposes, written off oil and gas lease and development costs for such properties as have been abandoned by the Company. This action has greatly increased the operating loss shown for the year but is in line with the accounting methods of other operating oil companies.

MEDICINE HAT AREA

One of the most recent developments of interest to your Company is its 26% net participating interest in three oil and natural gas reservations covering about 93,000 acres in the Medicine Hat area of Alberta. The first test well on one of the reservations containing about 16,000 acres was completed on January 11th, 1959. The test well was drilled into the Madison Limestone at a total depth of 2,899 feet and plugged back to 2,000 feet. During the course of drilling the Medicine Hat Sand, Bow Island Sand and Madison Limestone were drill stem tested. The Medicine Hat Sand flowed sweet gas at the rate of 300,000 cubic feet per day from 25 feet of porosity at 1,065 feet. The Bow Island Sand flowed sweet gas at the rate of one million cubic feet per day with brackish water from 10 feet of porosity at 2,090. The Madison Limestone flowed salt water from a depth of 2,899 feet.

R.O. Mackenzie, B.Sc., Geol. Eng., P. Eng. (Alta.) in his report made in January 1959 on this well and the 16,100 acre reservation gives his opinion that "the entire—acreage could be underlain by porous Medicine Hat Sand of equivalent thickness to that encountered". "The Medicine Hat Sand underlying the—acreage is structurally higher than wells in the main part of the field. Consequently the—acreage should be water free." "The proven recoverable gas in the Medicine Hat Sand (based on 25 feet net pay) underlying section 28 (640 acres) was estimated by the writer to be two and a half

billion cubic feet." "Assuming an average pay thickness of 20 feet in the Medicine Hat Sand, the probable gas reserves underlying the 16,100 acres would be in the order of 50 billion feet. The recoverable gas in the Bow Island Sands (assuming no free water content and a net pay thickness of 10 feet) underlying one section was estimated by the writer to be 2.15 billion cubic feet. Assuming the sands to be continuous, and developed underneath the 16,100 acres, the probable recoverable gas reserves would be on the order of 43 billion cubic feet. The combined probable gas reserves in the Medicine Hat and Bow Island Sands underlying the 16,100 acres were calculated to be on the order of 93 billion cubic feet."

A second well known as B.H. Peace-River-Richwell-Pan-Am 7-20 is now drilling as an offset in Section 20. Upon the completion of this second well arrangements will be made for a 2 mile gathering line to connect with a pipe line to Medicine Hat and the sale of the gas.

It should be pointed out to our shareholders that gas wells capable of producing one million cubic feet of gas from such shallow depths are highly profitable—and efforts will be made to drill out the acreage as quickly as possible.

LONE MOUNTAIN — MONKMAN PASS AREA

As previously reported your Company holds a 2½% net carried interest in a block of 170,208 acres of oil and natural gas permits in the Lone Mountain — Monkman Pass area of British Columbia being explored and developed by Richfield Oil Corporation of California and the Compagnie Francaise des Petroles. After 23 months of drilling a test well known as Grizzly Valley No. 1 reached a total depth of 12,631 feet. During the course of drilling, gas was encountered in the Triassic "C" Zone at about 11,900 feet with pressure in excess of 6,000 pounds per square inch. Casing was set and the well was continued to test the underlying Triassic "D" Zone which was entered at about 12,631 feet. Natural gas was encountered under such high pressure that the drilling mud in the 12,600 feet of hole was blown out over the top of the derrick. Following this blow 3,000 feet of drill pipe became disconnected and dropped 12,000 feet to the bottom of the hole. After nearly four months of continuous work in an effort to recover this string of pipe so that the well could be completed the well was cemented in when it was found impossible to recover the last 700 feet of the drill pipe and collars.

Notwithstanding this unfortunate happening your directors are confident in the belief that this acreage contains a major gas reservoir. Their confidence has been reassured by advice in a letter dated February 11, 1959 from Richfield Oil Corporation of California that application has been made for the maximum lease selection allowable out of the 170,208 acres under the Petroleum and Natural Gas Act of British Columbia.

HAZELMERE GAS STORAGE

Your Company in association with Van Tor Oil and Exploration Co. Ltd., Royal Canadian Ventures Ltd. and Peace River Petroleum Ltd. acquired approximately 28,000 acres of Government and Private Lands located at Hazelmere Valley, B.C., approximately 30 miles south of the City of Vancouver, B.C.

The first test well was drilled to 5,100 feet. No oil or gas was found but five porous horizons were encountered which appeared suitable for development as an underground reservoir or storage for the gas which is being delivered to the lower mainland from the Peace River District by the West Coast Transmission pipeline.

Van Tor Oil & Exploration Co. who are associated with the Western Power Corporation a subsidiary of the B.C. Electric Co. distributors of gas in the Lower Mainland were interested in developing the gas storage basin. They proposed to the other three partners that they proceed with this development on the basis of providing 70% of the cash and our Company and the other two companies 10% each.

Considerable detailed seismograph work by a Texas geophysical company has been carried out with most encouraging results, indicating that a closure suitable for natural gas storage may well exist. Shallow drill holes are now required to be drilled to confirm findings of the seismic surveying. Your Company continues to hold its 10% interest in this storage development.

Qualified storage engineers advise your Company management that underground gas storage operations are extremely profitable for many years. However if oil or gas is found in future drilling on this acreage your Company will have a 25% interest, and recently, approaches have been made by a large corporation interested in the discovery of oil or gas, on a basis which would result in a carried interest for the present group in this branch of the development.

WILRICH DRILLING LIMITED

During the past year drilling activity in Western Canada was at a very reduced rate. At times fewer than half the available drilling rigs were employed and contract prices for drilling dropped drastically. Your directors hoped that contract prices for the 1958-59 winter work would improve but when this did not happen it was necessary to close down the operations of Wilrich Drilling Limited and the shares of this subsidiary have been sold to a large independent drilling contractor.

OTHER OIL AND NATURAL GAS INTERESTS

Your Company has retained varying interest in producing properties as follows:

In Alberta—in the Excelsior field—royalties from 1¼% to 3% in 4 oil wells;

In the Leduc field—about 23% net interest in 4 oil wells;

In Lloydminster—1.5% royalty in 3 oil wells, varying net interest up to 38¾% in 38 oil wells, and 25% net interest in 4 gas wells;

In the Pouce Coupe Field we have converted our interest in one gas well into a 2.5% interest in the production from the whole unitized Pouce Coupe Field in which there are 26,053.8 acres with 12 producing gas wells drilled which have an absolute open flow potential of 130,196,000 cu. ft. per day. In the Whitemud field—22.65% net interest in 1 oil well.

In Saskatchewan—in the Middle field—12½% net interest in 3 oil wells.

In Montana—in the East Poplar field—18¾% net interest in 1 oil well.

Your Company has also retained varying interests in proven (non-producing) properties in the Hamilton Lake field of Alberta and the Maidstone field in Saskatchewan.

Your Company has varying interests in other undeveloped properties in the Okotoks field and the Lloydminster field both of Alberta.



A view of the lumber plant of Sinclair Spruce Lumber Co. Ltd. (Wholly-owned subsidiary of Richwell) at Sinclair Mills, British Columbia.

EXCELSIOR REFINERIES LIMITED

During the year ended May 31, 1958, as forecast in the last Annual Report, your Directors determined that some definite course of action had to be taken regarding our investment in Excelsior Refineries Limited. Our investment in the common stock of that company had never resulted in dividends. Excelsior has never made consistent operating profits commensurate with the capital invested in it. It did make a substantial capital profit on the organization and subsequent sale of X-L Refineries Ltd., but none of this profit was received directly by Richwell.

An agreement was reached for the sale of our equity in Excelsior in the Fall of 1957 but it was found that after receiving the first payment under this agreement, the transaction could not be completed and negotiations for a merger were instituted. On February 3, 1958, an agreement was signed, later amended by a further agreement dated March 19, 1958 by which Richwell acquired by issuing 1,139,194 shares all the assets of Excelsior subject to all liabilities. A new company, Excelsior Oil Refineries Ltd., was incorporated as a wholly owned subsidiary of Richwell to which all assets and liabilities of Excelsior Refineries Limited were transferred. Richwell guaranteed the payment of Excelsior bonds. The effective date of this merger was set as January 1, 1958.

FINANCIAL

In 1957 your Directors ordered the preparation of necessary reports and a registration statement so that an application could be made to the Securities and Exchange Commission, Washington, D.C., for the registration of shares which the Company proposed to offer, first to its shareholders pursuant to a partially underwritten rights offering and then to the public. It had been expected that such registration statement would have been prepared for submission to the S.E.C. in time to enable the Company to raise the funds to make the

scheduled payments due on the purchase of the Sinclair Spruce shares. There were a number of unavoidable delays with the result that the payments became accelerated and the balance of about \$1,280,000 had to be met on June 18, 1958 before the registration statement had been filed. In order to meet this commitment, it was necessary, as mentioned above, to borrow \$350,000 from Excelsior Oil, which sum Excelsior Oil borrowed from its bankers on security provided by your Company.

The Company had obtained an underwriting commitment assuring the Company of \$350,000 from the proposed rights offering to its shareholders but because of an unanticipated delay in effecting registration with the Securities and Exchange Commission the underwriters terminated the underwriting commitment and the Company does not now intend to proceed with the registration of the shares which it had proposed to offer.

EXCELSIOR OIL REFINERIES LTD.

In November 1958 when the bank demanded liquidation by Excelsior Oil of outstanding loans amounting to about \$1,400,000, a financial crisis arose for that company. Negotiations were conducted with several groups in an attempt to get outside help for Excelsior Oil, but the only firm proposal was one from Canadian Chieftain Petroleums Ltd. After a series of meetings under the Companies Creditors Arrangement Act, on February 20, 1959 Excelsior Oil's creditors and bondholders unanimously approved an amended plan of compromise or arrangement. A summary of the proposal by Excelsior Oil to its creditors and bondholders and the circumstances leading thereto is contained in a letter from Clarkson Gordon & Company, dated February 19, 1959, a copy of which is enclosed herewith. A copy of the amended plan of compromise or arrangement will be available for inspection by registered shareholders at the Head Office, of your Company at any time during regular business hours until the day prior to the forthcoming meeting.



Part of Planing Mill showing Shipping room platform at Midway Terminal and railroad loading minals Ltd. plant, Fort William, Ont. All pictures reproduced in this report of the Midway Plant at Fort William were taken during operation carried on by Great Lakes Lumber & Shipping Ltd.

We can now advise that pursuant to the said proposal an agreement dated February 27th, 1959, has been entered into between your Company and Canadian Chieftain Petroleum Ltd. whereby Chieftain has been granted an option to acquire 90% of the issued shares of Excelsior Oil on the terms therein set out. A copy of the option agreement is enclosed and it is subject to the conditions in a letter agreement of the same date a copy of which is also enclosed.

Chieftain is required to advance \$80,000 for immediate working capital for Excelsior Oil and to undertake the management of its operations. It will have six months within which to raise \$500,000 of working capital for Excelsior Oil and will be required to arrange for the payments to Excelsior Oil's creditors on the terms set out in the said proposal. While your Directors are not happy with the Chieftain agreements, it was the only proposal that could be secured that was acceptable to the creditors and bondholders of Excelsior Oil. We were compelled by them either to go along with Chieftain's proposal or let Excelsior Oil face bankruptcy proceedings, and with the object of bringing the matter squarely before the shareholders for ratification, authorize the signing of the agreements. Your directors are hopeful that Chieftain will succeed in carrying out its plans for financing and operating Excelsior Oil and that under Chieftain management the operation will be profitable and finally show some return on our investment.

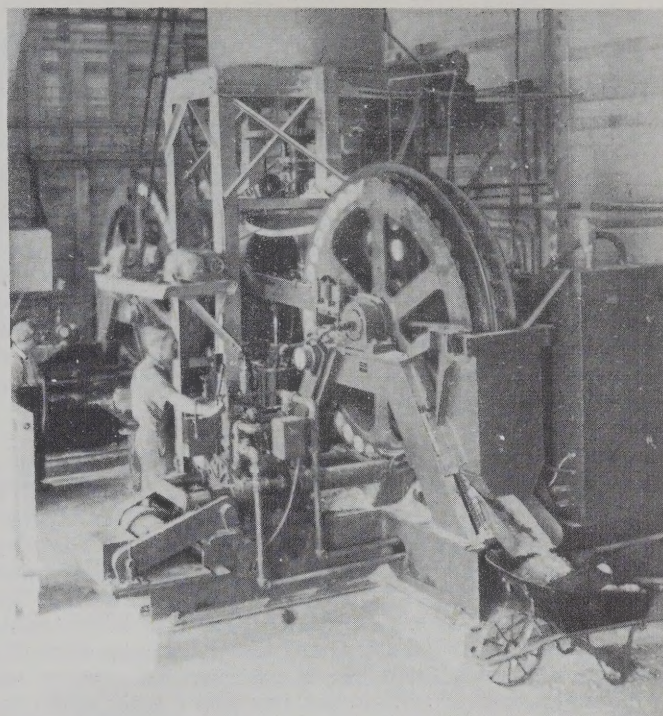
SINCLAIR SPRUCE LUMBER CO. LTD.

In the period under review your Company had acquired at a cost of \$951,675.00 all of the equipment of one of Eastern Canada's largest lumber mills at the Head of the Lakes in Ontario with the intention of utilizing a good part of the equipment for the expansion of the facilities of Sinclair Spruce. On June 18, 1958 the said equipment was sold to Sinclair Spruce for \$1,650,000.00 as set out in Note 10 to the Consolidated Balance Sheet. As set forth in said Note 10, your Company received \$650,000.00 of Sinclair Spruce 6% first mortgage debentures for \$639,817.29 of the sale price of the said equipment, \$805,182.71 was paid in cash, \$105,000.00 was set off against an earlier payment under an option arrangement and \$100,000.00 by credit for a chattel mortgage on the equipment which was assumed by Sinclair Spruce. At the time of closing, \$804,422.71 of the cash received from Sinclair Spruce, \$350,000.00 borrowed from Excelsior Oil Refineries Ltd. and \$125,000.00 borrowed from an individual, being a total of \$1,279,422.71, was paid out to redeem your company's promissory notes given on July 15, 1957, completing acquisition of Sinclair Spruce shares, and current liabilities were reduced accordingly.

At that time, your Directors fully expected that ample funds would be available to your Company through the financing discussed below, not only to discharge the loans totalling \$475,000.00 aforementioned, but also to provide additional funds for the expansion of the operations of Sinclair Spruce and Excelsior Oil.

MIDWAY TERMINALS LTD.

Subsequently, when it began to appear that the proposed plan of financing might not be carried out in time, your Directors entered into negotiations with



Pres-to-logs machines at Midway Terminals plant in which sawdust and shavings are pressed into wood briquettes for fuel in fire-places, etc.

Midway Terminals Ltd. with respect to the Company's lumber interests. It was eventually agreed, subject to the requisite approval of shareholders and consent of the Toronto Stock Exchange, to sell to Midway the 3,200 (all of the shares) shares of Sinclair Spruce for \$200,000.00 cash, \$500,000.00 face value of Midway's 7% Debentures and 3,000,000 shares of Midway's capital stock, being 50% of Midway's share capital which will be issued and outstanding at the closing.

A copy of the agreement providing for the foregoing is available for inspection by registered shareholders or their duly authorized representatives at the Head Office of the Company, Suite 1207, 67 Yonge Street, Toronto, during regular business hours until the day prior to the Shareholder's Meeting of which notice accompanies this report.

Elmore Meredith, Q.C., a Director of your Company, acted as solicitor for Midway and as trustee for some of those interested in its formation, but has no beneficial interest in Midway. The undersigned, George A. Richardson also has no beneficial interest in Midway but considered he would disclose the fact that a close business associate has a personal interest.

Midway, a private company incorporated under the laws of British Columbia and licensed to do business in Ontario, has acquired and owns, free of encumbrance beyond the floating charge securing its debentures, all the issued shares of John Luttin Ltd., (a lumber company in operation at Keremeos, B.C.), the terminal warehouse, docks and mill buildings at Fort William, Ontario, wherein the sawmill equipment aforementioned is situate, and the said sawmill equipment which Midway acquired from Sinclair Spruce subject to ratification, for \$1,000,000. of its debentures and the assumption of the \$100,000 chattel mortgage thereon since paid.

When the transaction with your Company is carried out Midway will have an authorized capital of 7,500,000 shares of no par value of which 6,000,000 will be issued and outstanding including the 3,000,000 to be issued to your Company. An issue of 7% Debentures due August 1, 1968 in the principal amount of \$3,000,000. has been authorized by Midway, of which \$2,590,000 will be issued and outstanding including the \$500,000 principal amount thereof to be issued to your Company as aforesaid and \$1,000,000 thereof held by Sinclair Spruce. The 1,500,000 unissued shares and \$410,000 of Debentures will be available for further financing. Your Company retains the \$650,000 of Sinclair Spruce Debentures which it now owns and becomes entitled to place at least two directors on the board of Midway.

The buildings, plant, machinery and equipment at Sinclair Mills, B.C. have an appraised value of \$1,777,337., that at Keremeos, B.C., \$402,174 and at Fort William, Ontario, \$2,755,126 a grand Total of \$4,934,637. The plant at Sinclair Mills has a capacity for sawing 90,000 board feet and planing 55,000 board feet per 8 hour shift. The plant at Keremeos has a capacity for sawing 50,000 board feet and planing 100,000 board feet per 8 hour shift. The plant at Fort William has a capacity for sawing and planing about 400,000 board feet per 8 hour shift. The total capacity of all three plants will be more than 500,000 board feet of finished lumber per 8 hour shift. The output of the plant at Sinclair Mills has averaged in excess of 11 million board feet per year for the past 20 years. The output at Keremeos has averaged about 8,000,000 board feet per year for the past 2 years. While the Fort William plant has been more or less idle for several years, management of Midway anticipates operating this plant with an output of at least 40,000,000 board feet per year.

In addition to the capacity of the plants, there are other features that point to a profit potential for Midway. In particular the plant at Fort William is in close proximity to large urban centres, such as Minneapolis, Chicago, Detroit, Buffalo, Cleveland, Toronto and Hamilton, and not too distant from New York — territories which offer the best markets for lumber products. Midway's docks can accommodate ocean-going freighters passing through the St. Lawrence Seaway. This opens up a vast new market for Midway's products. Midway has been fortunate in coming to an arrangement with Mr. Edwin McDonald to act as General Manager. Mr. McDonald brings with him thirty-one years of experience gained in the lumber business. For the past

five years he was Manager of the Canadian White Pine Division of McMillan & Bloedel Limited, New Westminster, B.C.

CONCLUSION:

Your Directors had delayed publishing the Annual Report in order to produce a comprehensive statement of the current position of the Company; subsequently because negotiations with Midway were inconclusive and later with a view to including a report on the final solution of the problem of Excelsior Oil two extensions of time for the filing of the Annual Report were obtained from the Toronto Stock Exchange. It was expected that a further extension of time for mailing would be granted by the Toronto Stock Exchange but such was not the case and the Exchange suspended trading in the Company's shares. The American Stock Exchange followed suit.

Since the suspension a degree of finality has been reached with respect to Midway and Excelsior Oil subject as above noted, the Company has received an offer to purchase \$450,000 worth of unissued shares from the Company provided the shareholders approve the transactions set forth in the accompanying notice of meeting and the Toronto Stock Exchange releases the suspension and accepts the requisite filing statements.

To facilitate your consideration of the matters referred to in this report, there is enclosed for your information an unaudited consolidated balance sheet as at December 31, 1958 of the Company with Wilrich Drilling, Excelsior Oil and Sinclair.

The Board of Directors appreciate the confidence in them exhibited by the shareholders in a period of difficulty and strain and look forward with optimism to completing the current year with a much improved position and to an interesting and profitable future for the Company.

All of which is respectfully submitted.

On behalf of the Board,

George A. Richardson
President.

March 12th, 1959



A view of section of the planing mill of John Luttin Ltd. (Wholly-owned subsidiary of Midway Terminals Ltd.) at Keremeos, British Columbia.

RICHWELL PETROLEUMS LIMITED

and

WILRICH DRILLING LIMITED

CONSOLIDATED BALANCE SHEET

MAY 31st, 1958

ASSETS

CURRENT ASSETS:

Cash on Hand and in Banks	\$ 2,110.76	
Accounts Receivable	64,365.86	
Refundable Deposits	12,925.00	
Inventory of Materials and Supplies	525.40	
Prepaid Expenses	2,271.00	
Work in Progress	2,763.00	
		\$ 84,961.02

LOANS RECEIVABLE — Note 1	33,738.14
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INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES, at cost — Note 2

Red Willow Drilling Co. Ltd. — Shares	100.00	
Sinclair Spruce Lumber Company Limited		
— Shares — Note 5	2,255,007.27	
— Accounts Receivable	10,607.95	
Excelsior Oil Refineries Ltd.		
— Shares	1,939,623.43	
— Bonds, 5%, due March 31st, 1965 with accrued interest — Notes 5 and 6	114,745.84	
— Account Receivable	80,500.00	
		4,400,584.49

OTHER INVESTMENTS, at cost:

Shares in Companies — Note 3	358,295.50	
Bonanza Syndicate — Units	12,000.00	
Interests in Leases, Drilling Rights, Wells and Royalties	389,250.48	
Exploration and Drilling Costs	554,556.29	
		1,314,102.27

LUMBER MILL EQUIPMENT, at cost — Note 10	951,675.00
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FIXED ASSETS:

Land — cost	1,100.00	
Building — cost	1,847.75	
Office Furniture — cost	8,370.55	
Drilling Rigs, Automotive and Sundry Equipment — cost	\$454,171.44	
Less Accumulated Depreciation	74,603.19	
	379,568.25	
Tank Farms, Gathering System and Well Equipment — cost	102,608.90	
		493,495.45

INTANGIBLE ASSETS:

Organization, Registration and Listing Expenses	37,285.54	
Deferred Losses on Disposal of Fixed Assets — Note 4	78,535.78	
Discount on Debentures	286,390.00	
Premiums Paid on Loans	50,000.00	
		452,211.32
		<u>\$7,730,767.69</u>

Approved on behalf of the Board:

Geo. A. Richardson, Director.

H. W. MacAdams, Director.

RICHWELL PETROLEUMS LIMITED

and

WILRICH DRILLING LIMITED

CONSOLIDATED BALANCE SHEET

MAY 31st, 1958

LIABILITIES

CURRENT LIABILITIES:

Accounts Payable	\$ 136,450.55	
Accrued Debenture Interest	27,555.00	
Loan Payable	2,000.00	
Notes Payable — with accrued interest — Notes 5 and 10	1,317,336.00	
Chattel Mortgages — with accrued interest — Notes 6 and 10	153,845.86	
Due to Directors	68,889.96	
		<u>\$1,706,077.37</u>

INDEBTEDNESS TO WHOLLY OWNED SUBSIDIARIES:

Red Willow Drilling Co. Ltd.	1,100.00	
Sinclair Spruce Lumber Company Limited		
— Option on Lumber Mill Equipment — Note 10	105,000.00	
Excelsior Oil Refineries Ltd.		
— 5% Notes, due November 19th, 1958 — with accrued interest — Note 11	318,193.15	
— Account Payable	7,763.62	
		<u>432,056.77</u>

5% SINKING FUND DEBENTURES, due June 15th, 1960:

Authorized	\$2,000,000.00	
Issued and Fully Paid	2,000,000.00	
Less Debentures redeemed and converted	795,500.00	
		<u>1,204,500.00</u>

CAPITAL:

Authorized, 5,000,000 shares of \$1.00 par value	\$5,000,000.00	
Issued and Fully Paid, 3,524,147 shares — Note 7		3,524,147.00

CAPITAL SURPLUS — Note 8		1,991,110.00
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DEFICIT — Balance at June 1st, 1957	100,734.97	
Net Loss for the year	1,026,388.48	
		<u>1,127,123.45</u>
Commitments and Contingent Liabilities — Note 9		
		<u>\$7,730,767.69</u>

The accompanying notes to financial statements are an integral part of this statement.
Submitted with our report dated February 11th, 1959.

NASH & NASH
Chartered Accountants.

RICHWELL PETROLEUMS LIMITED

and

WILRICH DRILLING LIMITED

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED MAY 31st, 1958

Gross Profit from:

Well Revenue	\$ 47,136.06
Drilling Rig Revenue	33,760.98
Truck and Tractor Revenue	6,792.72

87,689.76

Interest and Discounts Earned 19,025.17

Management Fees 5,900.00

\$ 112,614.93

Less:

Administrative and General Expenses \$148,409.72

Directors' Fees 2,500.00

Interest and Bank Charges 87,586.23

238,495.95

\$ 125,881.02

Add Other Charges:

Debenture Interest 60,225.00

Investments Written off 100.00

Loss on Sale of Investments 22,743.83

Dry Hole Costs Written off 347,137.89

Acreage Abandoned 440,904.27

Loss of Equipment on Abandonment of Properties 29,396.47

900,507.46

Net Loss \$1,026,388.48

The accompanying notes to financial statements are an integral part of this statement.

RICHWELL PETROLEUMS LIMITED

and

WILRICH DRILLING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31st, 1958

1. Loans Receivable:

Details of the Company's loans receivable are as follows:

Beaver State—Wilrich—Excelsior Limited—6% loan, with accrued interest \$ 5,252.21

Bonanza Syndicate—6% loan 6,000.00

—interest accrued since May 15th, 1952 2,160.00

Royal Canadian Ventures Ltd.—recovered June 3rd, 1958 12,567.19

Peace River Petroleum Ltd.—current advance 7,758.74

\$ 33,738.14

2. Subsidiaries:

As Wilrich Drilling Limited has become inactive, negotiations are under way for the sale of the shares of this company.

Red Willow Drilling Co. Ltd. has been inactive since May 31st, 1956, when Wilrich Drilling Limited took over its operations. Red Willow had an accumulated surplus of \$1,264.84 at December 31st, 1957.

The investment of \$2,255,007.27 in Sinclair Spruce Lumber Company Limited represents the cost of all the issued shares of Sinclair, acquired on July 15th, 1957, as well as expenses of the negotiations. Sinclair Spruce Lumber Company Limited had a profit of \$21,764.00 for the five and one-half months ending December 31st, 1957.

Negotiations have been completed for the sale of the shares of Sinclair Spruce Lumber Company Limited to Midway Terminals Limited, subject to the approval of the shareholders and any regulatory authorities concerned.

By an agreement dated February 3rd, 1958 and amended by an agreement dated March 19th, 1958 the Company acquired all the assets and undertakings and assumed all the liabilities of Excelsior Refineries Ltd. by the issuance of 1,139,194 Richwell shares. These agreements became effective on January 1st, 1958.

As per an agreement incidental to the above, Richwell incorporated a company called Excelsior Oil Refineries Ltd. to which all the assets and liabilities of Excelsior Refineries Ltd. have been transferred. The first year-end of Excelsior Oil Refineries Ltd. was December 31st, 1958.

Excelsior Oil Refineries Ltd. is presently meeting with its creditors under the provisions of the Companies Creditors' Arrangement Act.

Because the year-ends of Red Willow, Sinclair Spruce and Excelsior Oil are December 31st, they have not been consolidated in this statement nor has any provision been made in the accounts of the Company for any profits or losses incurred since the dates of their acquisition.

3. Shares in Companies:

Details of shares in companies are as follows:

	Number of Shares	Cost
Beaver State-Wilrich-Excelsior Limited	5,000	\$ 5,000.00
B.C. Northern Oils Limited	81,476	38,820.00
Stony Lake Oils Limited	128,376	128,376.00
Royal Canadian Ventures Ltd.	30,000	30,000.00
Glenmar Lithium Mines Ltd.—(180,000 Escrow Stock)	200,000	97,633.18
Peace River Petroleum Ltd.—Escrow Stock	12,500	1,023.24
Ansil Mines Limited—Escrow Stock	14,285	57,443.08
		<u>\$358,295.50</u>

Market value of Royal Canadian Ventures Ltd. shares at May 31st, 1958 was \$14,100.00. None of the other securities were listed on a recognized stock exchange.

4. Deferred Losses on Disposal of Fixed Assets:

The losses on disposal of fixed assets are being deferred until such time as the Company begins to make provision for depreciation of their fixed assets. These losses will then be written off at the same rates.

5. Notes Payable:

Details of notes payable with accrued interest are as follows:

Western Supplies Limited	15,926.53
Wing Corporation and Others	1,275,784.47
Saphire American Petroleum Inc.	25,625.00
	<u>\$1,317,336.00</u>

The notes payable to Western Supplies Ltd. are dated May 15th, 1958, bear interest at 6% per annum and are payable by 1 monthly instalment of \$882.15 and 15 monthly instalments of \$1,000.00 each plus interest, commencing June 15th, 1958 and ending September 15th, 1959. The payments due in June, July and August, 1958 have been made. This liability is secured by \$15,000.00 par value of the Company's Excelsior Oil Refineries Ltd. 5% bonds.

The liability to Wing Corporation and others was incurred in connection with the purchase of Sinclair Spruce and bears interest at 6%. These notes were paid in full on June 18th, 1958. See Note 10. The liability is secured by all the outstanding shares of Sinclair Spruce Lumber Company Limited.

The notes payable to Saphire American Petroleum Inc. are dated January 1st, 1958, bear interest at 6% per annum and are payable in two equal instalments due July 1st, 1958 and January 1st, 1959. No payments have been made.

6. Chattel Mortgages:

Details of chattel mortgages with accrued interest are as follows:

The National Supply Co. Ltd.	53,845.86
The Royal Trust Co.	100,000.00
	<u>\$153,845.86</u>

The National Supply Co. Ltd. holds a mortgage in the amount of \$51,480.00 plus accrued interest at 6% in the amount of \$2,365.86, on a drilling rig purchased by Wilrich Drilling Limited. It also holds as security \$53,000.00 par value of the Company's Excelsior Oil Refineries Ltd. 5% bonds. At January 31st, 1959 the balance of this account with accrued interest was \$47,304.82, all of which is past due.

The liability to The Royal Trust Co. was incurred in connection with the purchase of the lumber mill equipment. It bears no interest and is payable in two equal instalments on May 6th, and August 6th, 1958. The mortgage was assumed by Sinclair Spruce Lumber Company Limited subsequent to the year-end. See Note 10.

7. Share Capital:

The following changes took place in the issued capital stock of the Company during the year ended May 31st, 1958:

	Shares	Capital Account
Balance at beginning of year	1,260,953	\$1,260,953.00
Issued for cash—\$1.05 per share	1,124,000	1,124,000.00
Issued for 2,278,388 shares of Excelsior Refineries Ltd.	1,139,194	1,139,194.00
	<u>3,524,147</u>	<u>\$3,524,147.00</u>

8. Capital Surplus:

The following is an analysis of capital surplus:

Arising from the cancellation of 7,076,671 issued shares of the company	\$1,834,910.00
Excess of proceeds over par value on sale of 250,000 shares—prior years	100,000.00
Excess of proceeds over par value on sale of 1,124,000 shares—current year	56,200.00
	<u>\$1,991,110.00</u>

9. Commitments and Contingent Liabilities:

The Company has guaranteed all liabilities of its subsidiary Excelsior Oil Refineries Ltd. to the Imperial Bank of Canada, and has pledged all its shares of Excelsior Oil Refineries Ltd. to the Imperial Bank as security against this guarantee.

At May 31st, 1958, Excelsior Oil Refineries Ltd. had a loan of \$1,112,000.00 owing to the Imperial Bank of Canada. On February 11th, 1959, the balance of this loan was \$102,124.00.

The Company has also guaranteed all outstanding 5% Debenture Sinking Fund Bonds, due March 31st, 1965, of Excelsior Refineries Limited, together with interest payments thereon. At January 31st, 1959 there were bonds amounting to \$1,683,550.00 outstanding, as well as interest coupons due October 31st, 1958, amounting to \$18,600.50.

10. On June 18th, 1958, the lumber mill equipment was sold to Sinclair Spruce Lumber Company Limited for \$1,650,000.00, which was received as follows:

Option on Equipment received prior to May 31st	\$ 105,000.00
Cash	805,182.71
Mortgage on Equipment assumed by Sinclair (Note 6)	100,000.00
6% Sinclair debentures received—dated May 15th, 1958, par value \$650,000.00	638,625.00
Interest Accrued on debentures	1,192.29
	<u>\$1,650,000.00</u>

On the same date the notes payable to Wing Corporation and Others in the amount of \$1,245,710.28 as well as accrued interest thereon in the amount of \$33,712.43 were paid as follows:

Cash	\$ 804,422.71
Loan from Excelsior Oil Refineries Ltd.	350,000.00
Loan from an Individual	125,000.00
	<u>\$1,279,422.71</u>

11. The liability on the notes payable to Excelsior Oil Refineries Ltd. is being disputed on the basis that no consideration has been received by the Company.

AUDITORS' REPORT

We have examined the balance sheet of Richwell Petroleums Limited and Wilrich Drilling Limited as at May 31st, 1958 and the statement of profit and loss for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

No allowance has been made for depreciation of fixed assets, depletion or amortization of dry hole costs.

No consideration has been given to profits or losses incurred by the Company's wholly owned subsidiaries, Red Willow Drilling Co. Ltd., Sinclair Spruce Lumber Company Limited and Excelsior Oil Refineries Ltd. See Note 2.

Subject to the foregoing, we report that the accompanying balance sheet and statement of profit and loss present fairly the financial position of the Companies as at May 31st, 1958 and the results of their operations for the year ended on that date.

NASH & NASH
Chartered Accountants.

February 11th, 1959.

RICHWELL PETROLEUMS LIMITED, WILRICH DRILLING LIMITED **EXCELSIOR OIL REFINERIES LTD., and SINCLAIR SPRUCE LUMBER CO. LTD.**

CONSOLIDATED BALANCE SHEET (UNAUDITED) **FOR THE YEAR ENDED DECEMBER 31st, 1958**

ASSETS

CURRENT ASSETS:

Cash on Hand	\$ 67,255.15	
Cash in Bank	2,330.67	
Refundable Deposits	52,918.20	
Marketable Securities	352,000.00	
Accounts Receivable	\$ 746,022.91	
Less: Provision for Doubtful Accounts	13,222.54	732,800.37
Inventories of Finished Products, Raw Materials, Work in Progress and Supplies	859,623.42	
Prepaid Expenses	92,576.54	\$2,159,504.35

OTHER ASSETS:

Investments in Subsidiary Companies	\$ 97,111.27	
Receivable from Subsidiary Companies	571,755.58	
Investments in Associated Companies	82,000.00	
Receivable from Associated Companies	16,397.32	
Investments in Other Companies	361,520.50	
Other	12,703.84	1,141,488.51

FIXED ASSETS:

Land	\$ 106,605.18	
Buildings, Plant and Equipment	3,689,251.29	
Well Production, Drilling and Automotive Equipment	695,792.87	
Bulk Station Equipment	165,674.76	
Tank Cars	164,529.71	
Railway Spur Tack and Roads	42,503.72	
Construction 1958	258,337.66	
Furniture and Fixtures	46,886.93	
	\$5,169,582.12	
Less: Accumulated Depreciation	1,517,514.70	\$3,652,067.42
Interests in Leases, Drilling Rights, Wells and Royalties	\$ 817,341.07	
Exploration and Drilling Costs	1,672,062.56	
	\$2,489,403.63	
Less: Accumulated Depletion	276,506.06	2,212,897.57
		5,864,964.99

INTANGIBLE ASSETS:

Organization, Registration and Listing Expenses	\$ 43,587.63	
Deferred Losses on Disposal of Fixed Assets	100,498.20	
Discount on Debentures	320,212.96	
Premiums Paid on Loans	146,750.00	
Other	499.00	611,547.79
		<u>\$9,777,505.64</u>

RICHWELL PETROLEUMS LIMITED, WILRICH DRILLING LIMITED **EXCELSIOR OIL REFINERIES LTD., and SINCLAIR SPRUCE LUMBER CO. LTD.**

CONSOLIDATED BALANCE SHEET (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31st, 1958

LIABILITIES

CURRENT LIABILITIES:

Bank Loans		\$ 674,400.00	
Bank Overdraft		47,120.70	
Outstanding Cheques		64,444.84	
Outstanding Bond Coupons		20,399.25	
Mortgages Payable		156,901.24	
Notes Payable		151,696.92	
Loans Payable		278,750.00	
Accounts Payable		930,967.48	
Due to Directors		83,508.63	
Accrued Liabilities:			
Wages	\$ 21,924.73		
Bond and Mortgage Interest	25,271.56	47,196.29	
Income Tax Payable		1,932.65	\$2,457,318.00

LONG-TERM DEBT:

5% Convertible Sinking Fund Debentures, Maturing June 15th, 1960	\$1,204,500.00	
5% Sinking Fund Bonds, Maturing March 31st, 1965	1,560,550.00	\$2,765,050.00

CAPITAL STOCK AND SURPLUS:

Capital—Authorized, 5,000,000 Shares of \$1.00 par value		\$5,000,000.00	
—Issued and Fully Paid, 3,524,147 Shares		\$3,524,147.00	
Capital Surplus—Balance, Beginning of Period	\$ 1,991,110.00		
—Current Period	81,394.50	2,072,504.50	
Excess of Book Value of Net Assets of Subsidiaries Over the Cost Thereof		328,652.12	
Deficit—Balance at Beginning of Period	\$(1,105,359.82)		
—Loss for the Period Before Depreciation or Depletion	(264,806.16)	(1,370,165.98)	4,555,137.64
			<u>\$9,777,505.64</u>

NOTES:

1. Negotiations have been completed for the sale of the shares of Wilrich Drilling Limited and Sinclair Spruce Lumber Company Ltd., subject to the approval of the shareholders and any regulatory authorities concerned.
2. Excelsior Oil Refineries Ltd., is presently meeting with its creditors under the provisions of the Companies Creditors' Arrangements Act.
3. Subsidiary and associated companies referred to in Other Assets refers to unconsolidated subsidiaries and associated companies of Excelsior Oil Refineries Ltd.
4. Profits (or losses) for Richwell and Wilrich are for the period June 1st, 1958 to December 31st, 1958. Profits (or losses) of Sinclair Spruce and Excelsior Oil are for year ended December 31st, 1958.

The above balance sheet was prepared from the books and accounts of Richwell Petroleum Limited and its subsidiaries, Excelsior Oil Refineries Ltd., Sinclair Spruce Lumber Company Limited and Wilrich Drilling Limited. Although minor adjustments have not been made, in our opinion and to the best of our knowledge and belief the above presents a correct view of the affairs of the companies consolidated at December 31st, 1958.

GEO. A. RICHARDSON, Director

H. W. MacADAMS, Director

